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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

COMPLETED

ORIGINAL

Long-Term Economic Planning Needed In Oil- And Gas-Producing States

The State budgets and economies of Texas, Oklahoma, and Louisiana rely heavily on the oil and gas industry. With rising energy prices, the region's potential overdependence on this industry is masked by current economic prosperity. Heavy reliance in the region on diminishing, nonrenewable resources should invite continued reassessment; long-range planning is needed.

We recommend that existing Federal planning assistance programs include a focus on the specific issue of how the region should deal with declining oil and gas resources. Congressional oversight can help make sure that existing planning processes pay attention to this important, long-term regional issue, which could have significant implications for the U.S. economy.

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

LONG-TERM ECONOMIC PLANNING NEEDED IN OIL- AND GAS-PRODUCING STATES

D I G E S T

For most of this century, the fiscal and economic condition of the southwestern States (Texas, Oklahoma, and Louisiana) has been inextricably linked to oil and gas activities. However, the region's oil and gas reserves and production have been declining since the early 1970s, and prospects for this trend to reverse are not good. Yet continued heavy reliance on decreasing resources has caused little concern for diversification planning, perhaps largely because rising energy prices are stimulating the region's economy and generating increased public sector revenues.

Although the Southwest region currently is fiscally and economically healthy, troublesome trends strongly indicate that long-range planning is needed. Through appropriate oversight, the Congress can help assure that potentially severe economic dislocations in the Southwest's basic industry are anticipated in time to take mitigating actions and, thus, to preclude the need for huge Federal aid expenditures in what could become a distressed area.

HIGH RELIANCE ON OIL AND GAS REVENUES: SEVERANCE TAXES, RENTS, AND ROYALTIES

Historically, direct mineral revenues (severance taxes, rents, and royalties) have been a large part of the southwestern States' budgets. During 1960-78, the three States' direct mineral revenues, as a share of the region's own-source general revenue, averaged 21.8 percent, ranging from a high of 26.8 percent in 1961 to a low of 15.4 percent in 1973; the 1978 figure was 21.2 percent. Louisiana showed the strongest reliance on oil and gas revenues, collecting close to $195 per person in 1978. (See p. 15 of full report.)

ECONOMIC DEPENDENCE ON PETROLEUM AND RELATED INDUSTRIES

In 1977, at least 1 of every 13 regional employees worked in petroleum and related industries and 12 percent of the region's total payroll dollars was paid by these industries. (See p. 41 of full report.)

Generally, the region's petroleum and related industries are heavily concentrated within certain cities and counties. Areas having heavy concentration of petroleum and related industries become vulnerable as nonrenewable oil and gas resources are depleted. The region's vulnerability can be decreased through diversification; however, the incentive to diversify is hampered by the high profits, wages, and taxes currently provided by these industries.

REGIONAL OIL AND GAS PRODUCTION OUTLOOK

The likely crude oil outlook for Texas, Oklahoma, and Louisiana is a continuation of the current trend of decreasing production, especially in Texas. In broad terms, only under the most optimistic of assumptions could oil production levels of the 1970s be maintained. A turnaround is more possible for natural gas production than for oil, but unlikely. Even though exploration for natural gas is up markedly in all three States, production is likely to continue to decline during the 1980s. Texas may experience the most extensive drop in gas production, mainly because oil production is expected to drop. (Frequently, gas is found dissolved in oil.) (See p. 57 of full report.)

LITTLE PLANNING BY STATES TO DIVERSIFY REVENUE SOURCES AND ECONOMIC BASES

The three States' interest in long-term fiscal planning generally has lessened in recent years as energy prices have increased. Also, the States do not have specific economic

development policies to encourage diversification which would counterbalance their dependence on the oil and gas industry. (See p. 90 of full report.)

However, the Governor of Texas recently initiated a comprehensive planning project to identify trends and decide where the State ought to be in the year 2000. Two issues already identified as needing attention are the long-range consequences of shifts in the composition of Texas' economy and the impacts of declining oil and gas reserves on State revenues.

LITTLE ENCOURAGEMENT BY THE FEDERAL GOVERNMENT TO FOSTER DIVERSIFICATION PLANNING

The major Federal agencies which have planning assistance programs--the Economic Development Administration (EDA), the Department of Housing and Urban Development (HUD), and the Ozarks Regional Commission (ORC)--are not addressing possible long-range fiscal and economic base problems in the Southwest stemming from the region's heavy reliance on the oil and gas industry. The current regional development strategy prepared by EDA's southwestern office contains no goals or objectives regarding the issue. Similarly, HUD's 701 planning program has not focused on the southwestern oil and gas issue. An Ozarks Regional Commission representative said that long-range fiscal and economic base diversification planning relative to the oil and gas industry was probably an issue which the Commission should have thought of on its own. (See p. 111 of full report.)

RECOMMENDATIONS

The Secretary of Commerce should have the EDA see that Federal, State, and substate planning processes focus on the Southwest's oil and gas issue. These efforts should be coordinated with those of ORC. (See pp. 135-136 of full report.)

The Secretary of Housing and Urban Development should see that the 701 planning program's administrator direct area offices in Texas, Oklahoma, and Louisiana to consider the oil and gas issue in reviewing program applications and overall program designs. Further, these offices should be aware of and support other Federal agencies' issue-oriented efforts. (See pp. 136-137 of full report.)

GAO recommends that the Congress oversee the Federal agencies' progress in meeting GAO recommendations concerning regional strategies and/or planning assistance programs. The Congress could require the applicable Federal agencies to follow a common regional strategy or action plan. (See p. 137 of full report.)

AGENCY COMMENTS

GAO sent draft copies of this report to the Federal and State agencies contacted during the course of the study. In general, their comments were positive with many praising the study, while others were very careful to define or clarify the positions of their agency vis a vis the report's message. A few, however, felt that GAO did not prove the need for long-range planning. GAO continues to believe this report does document such a need. (See p. 139 of full report.)

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ABBREVIATIONS

BLS	Bureau of Labor Statistics
EDA	Economic Development Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
ORC	Ozarks Regional Commission
SMSA	Standard Metropolitan Statistical Area

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CHAPTER 1

INTRODUCTION

For most of this century, the fiscal and economic health of the Southwest region 1/ has been inextricably linked to oil and gas activities. For 1979, in terms of relative contributions to national oil production, the States of Texas, Louisiana, and Oklahoma ranked first, third, and fifth. 2/ In natural gas production, they ranked second, first, and third. However, the region's oil and gas reserves and production have been declining since the early 1970s, and prospects for this trend to reverse have not been good. Yet, continued heavy reliance on decreasing quantities of oil and gas has caused relatively little concern for diversification planning, perhaps largely because rising energy prices are stimulating the region's economy and generating increased public sector revenues. In effect, a potential long-range problem in the region is masked by current prosperity.

The Congress has both oversight and policymaking responsibilities regarding long-term planning for the Southwest's continued economic and fiscal stability. Planning for the Southwest inevitably involves energy issues, as the region's hydrocarbon resources diminish. This report contains information, analyses, and recommendations which should be helpful to the Congress in its oversight and policymaking roles regarding the region's interrelated issues of energy, economic development, fiscal stability, and long-term planning.

1/In this report, we will refer to the States of Texas, Oklahoma, and Louisiana as "the Southwest," "the Southwest region," or "the region."

2/Alaska was second and California fourth.

CHAPTER 2

HIGH RELIANCE ON OIL AND GAS REVENUES: SEVERANCE TAXES, RENTS, AND ROYALTIES

In fiscal year 1978, the southwestern States' direct mineral revenues (severance taxes, rents, and royalties) totaled about $2.35 billion, over 60 percent of the Nation's $3.71 billion total from these sources. Texas, Louisiana, and Oklahoma have long led the Nation in severance tax revenues, currently ranking first, second, and third, respectively, among the 32 States that collect these taxes. Rents and royalties from leasing State-owned lands for mineral exploration and development totaled over $1.2 billion nationally, and 56 percent of this amount was collected by these three States.

Historically, direct mineral revenues have been a large part of the southwestern States' budgets. During 1960-78, the three States' direct mineral revenues, as a share of the region's own-source general revenue averaged 21.8 percent, ranging from a high of 26.8 percent in 1961 to a low of 15.4 percent in 1973; the 1978 figure was 21.2 percent. Texas alone collected over $1 billion in direct mineral revenues during fiscal 1978, or slightly above $102 for every person in the State. Oklahoma, meanwhile, collected less than one-fifth of the Texas sum, but on a per capita basis was not far behind Texas with revenues reaching about $90 for every Oklahoma resident.

Louisiana showed the strongest reliance on oil and gas revenues, collecting close to $195 per person in 1978. When public sector reliance is viewed from an income perspective, Louisiana's dependency is more than twice that of the other two States. Louisiana collected almost $33 in oil and gas revenues for every $1,000 of State personal income; Texas and Oklahoma collected $15 and $14. In 1972, Louisiana's severance tax collections declined on an absolute basis. At that point the legislature switched to an ad valorem (in proportion to the value) tax on oil, levying the highest rate in the region (12.5 percent of value).

Despite declining oil and gas reserves and production levels, in the short term revenues apparently will at least stabilize (and probably even increase) as prices are incrementally deregulated. However, uncertainties regarding production levels, price changes, suppliers' response time, and technology's effect in making substitutions feasible reduce the probability that short-term trends will continue steadily.

Another uncertainty, perhaps the most important, is political. All aspects of energy are becoming increasingly "politicized" and subjected to national scrutiny--even areas traditionally left to a State's individual discretion, such as natural resource taxation. There is, for instance, growing dialogue about redistributing the producing States' "windfall" revenues from deregulated prices. Given the numerous and potentially volatile or disruptive uncertainties, the region's heavy budgetary reliance on nonreplenishable resources should be continuously reassessed.

CHAPTER 3

ECONOMIC DEPENDENCE ON PETROLEUM AND RELATED INDUSTRIES

Since the discovery of oil and gas in the region at the turn of the 20th century, petroleum and related industries have been vitally important to the Southwest's economy. In 1977, at least 1 of every 13 regional employees was working in petroleum and related industries and 12 percent of the region's total payroll dollars was paid by these industries.

As table 1 shows, throughout the 1962-77 period the region accounted for the majority of national employment in crude petroleum and natural gas (60 percent), natural gas liquids (over 70 percent), drilling oil and gas wells (over 60 percent), oil and gas exploration services (over 67 percent), miscellaneous oil- and gasfield services (70 percent), and oilfield machinery manufacturing (75 percent on the average). In addition, the number of employees working in chemicals and allied products in Texas and Louisiana alone increased from 61,881 in 1962 to 101,825 in 1977; these employees accounted for less than 10 percent of this industry's national employment until 1977, when they accounted for almost 12 percent of the total.

Although regional employment made up the majority of national employment in many petroleum and related industries, these industries in aggregate were declining in national importance, as measured by relative rates of change. Further, regional rates of change in employment compared very unfavorably with national rates for these aggregated industries in the 1962-67 period but very favorably more recently (1972-77), as shown below:

Changes in Employment Rates Over Time

Period	All industries	Petroleum and related industries	
	National	National	Regional
1962-67	21%	4%	-5%
1967-72	10	-2	-1
1972-77	12	11	38

The 1962-67 regional decline coincided with an influx of low-priced petroleum imports and resultant steep declines in domestic production allowables. (Production was prorationed among and within States to insure stable prices.) In

Table 1
Number of Employees and Percentage of National Employment For Petroleum and Related Industries by State and Region 1962, 1967, 1972, and 1977 a/

SIC	Industry	State/ region	Number Employees (thousands) Mid-March Payroll 1962	1967	1972	1977	Percent of National Total 1962	1967	1972	1977
131	Crude petroleum and natural gas	Texas	46.4	36.4	28.0	36.9	36.2	35.3	33.0	35.1
		Oklahoma	16.4	11.0	8.5	9.9	12.8	10.7	10.0	9.4
		Louisiana	15.2	15.8	14.9	16.2	11.9	15.3	17.5	15.4
		Region	78.0	63.2	51.4	63.0	60.9	61.3	60.5	59.9
132	Natural gas liquids	Texas	5.9	4.6	4.2	4.9	46.1	47.9	57.5	47.1
		Oklahoma	2.5	1.2	.6	1.1	19.5	12.5	8.2	10.6
		Louisiana	2.4	2.1	1.0	1.5	18.8	21.9	13.7	14.4
		Region	10.8	7.9	5.8	7.5	84.4	82.3	79.4	72.1
1381	Drilling oil and gas wells	Texas	19.2	16.4	14.7	24.7	37.2	35.5	32.7	33.5
		Oklahoma	5.6	3.9	3.4	7.0	10.8	8.4	7.6	9.5
		Louisiana	8.2	10.1	9.7	14.8	15.9	21.9	21.6	20.1
		Region	33.0	30.4	27.8	46.5	63.9	65.8	61.9	63.1
1382	Oil and gas exploration services	Texas	3.8	2.7	6.1	8.8	46.9	35.5	48.0	43.1
		Oklahoma	1.3	.7	1.0	1.3	16.0	9.2	7.9	6.4
		Louisiana	.9	1.6	1.2	3.6	11.1	21.1	9.4	17.6
		Region	6.0	5.0	8.3	13.7	74.0	65.8	65.3	67.1
1389	Oil- and gasfield services NEC b/	Texas	23.0	22.1	22.4	44.7	43.1	38.9	38.6	40.3
		Oklahoma	6.2	6.6	5.1	12.5	11.6	11.6	8.8	11.3
		Louisiana	7.8	10.7	13.3	21.1	14.6	18.8	22.9	19.0
		Region	37.0	39.4	40.8	78.3	69.3	69.3	70.3	70.6
28	Chemicals and allied products	Texas	43.1	51.5	54.1	71.6	5.6	5.9	6.4	8.1
		Oklahoma	1.7	1.8	1.4	2.1	.2	.2	.2	.2
		Louisiana	18.8	19.6	22.2	30.2	2.4	2.3	2.6	3.4
		Region	63.6	72.9	77.7	103.9	8.2	8.4	9.2	11.7
291	Petroleum refining	Texas	36.6	31.2	33.7	31.9	28.1	29.0	32.4	31.8
		Oklahoma	6.6	4.4	4.2	3.9	5.1	4.1	4.0	3.9
		Louisiana	9.8	8.5	9.3	8.5	7.5	7.9	8.9	8.5
		Region	53.0	44.1	47.2	44.3	40.7	41.0	45.3	44.2
3533	Oilfield machinery	Texas	18.5	20.9	20.3	38.5	59.7	60.8	56.5	66.4
		Oklahoma	4.1	4.0	3.9	6.2	13.2	11.6	10.9	10.7
		Louisiana	.8	1.0	1.6	1.9	2.6	2.9	4.5	3.3
		Region	23.4	25.9	25.8	46.6	75.5	75.3	71.9	80.4
492	Gas production and distribution	Texas	18.4	17.9	18.7	19.6	13.1	12.5	12.8	15.9
		Oklahoma	3.7	3.7	3.4	4.9	2.6	2.6	2.3	4.0
		Louisiana	6.5	6.3	5.5	3.5	4.6	4.4	3.8	2.8
		Region	28.6	27.9	27.6	28.0	20.3	19.5	18.9	22.7
Aggregated petroleum and related industries		Texas	214.9	203.7	202.3	281.7	16.2	14.8	15.1	18.9
		Oklahoma	48.1	37.2	31.6	48.9	3.6	2.7	2.4	3.3
		Louisiana	70.3	75.8	78.6	101.2	5.3	5.5	5.8	6.8
		Region	333.3	316.7	312.5	431.8	25.1	23.0	23.3	29.0

a/ This is table 7, on p. 32 of the full report.

b/ Not elsewhere classified.

Sources: Developed by GAO staff using data from Bureau of the Census, U.S. Department of Commerce, County Business Patterns 1962, Parts 1, 8A, and 8B, County Business Patterns 1967, CBP-67-1, CBP-67-20, CBP-67-38, and CBP-67-45, County Business Patterns 1972, CBP-72-1, CBP-72-20, CBP-72-38, and CBP-72-45, and County Business Patterns 1977, CBP-77-1, CBP-77-20, CBP-77-38, and CBP-77-45, Washington, D.C.: Government Printing Office, 1963, 1968, 1973, and 1979.

1973-74, foreign producers, in concert, restricted the supply and sharply increased prices. In response, domestic market demand prorationing was abandoned, and aggregated petroleum industries' employment increased, particularly within the region.

These industries provide significant percentages of total regional employment and payrolls, as shown below:

Petroleum and Related Industries' Employment and Payrolls as a Percent of Total Employment

	1962	1967	1972	1977
Employment				
Texas	10.35%	7.79%	6.49%	7.07%
Oklahoma	11.04	7.13	5.19	6.59
Louisiana	12.01	9.77	9.22	9.72
Region	10.76	8.10	6.81	7.49
Payrolls				
Texas	15.89%	11.89%	10.10%	11.14
Oklahoma	15.06	9.53	7.27	9.84
Louisiana	19.67	15.26	15.04	17.15
Region	16.49	12.28	10.65	12.08

These figures show that the precipitous 1962-67 decline in aggregated industries' employment as a percentage of total moderated during 1967-72 and was partially reversed during 1972-77. In addition, between 1962 and 1972, Oklahoma's employment in these industries, as a percentage of total, fell most among the States, while Louisiana's employment in these industries as a percentage of total fell least among the States. Further, Louisiana alone almost regained its 1967 percentage in 1977.

The region's petroleum and related industries are heavily concentrated within certain cities and counties, and in these areas, employment in the industries accounts for very high percentages of total employment. Petroleum and related industries are concentrated in Texas and Louisiana along the gulf coast and in Louisiana along the Mississippi River. In Harris County, Texas (site of Houston, the hub of coastal employment), employees in numerous petroleum and related industries earned at least $1 billion in 1977 (10 percent of the county's total payroll). Close by, in the Port Arthur,

Texas,--Lake Charles, Louisiana, area, approximately 17 percent of 1978 employment was in petroleum refining and chemicals and allied products. In Baton Rouge, Louisiana, on the Mississippi River, refining and petrochemicals accounted for approximately 8 percent of employment in 1978. In 1975, 25,000 out of 40,000 employees in Oklahoma's mining sector (almost totally oil and gas) were in Oklahoma, Tulsa, and Washington Counties.

Areas with heavy concentrations of petroleum and related industries become vulnerable as nonrenewable oil and gas resources are depleted. The greater this concentration and the more precipitous the decline in employment in these industries, the greater the problem will be to absorb displaced employees.

The decline in production-related employment is expected to be gradual. However, several other petroleum and related industries, such as refining and oilfield machinery manufacturing, are inextricably linked to foreign trade and so are subject to the uncertainties of international developments. Therefore, the future outlook for these industries ranges from a gradual decline because of increased competition to an abrupt cessation of trade because of international hostilities.

Petroleum producing nations are expected to vertically integrate. That is, they will refine their own petroleum and use petroleum feedstocks to develop their own petrochemical industries. In addition, U.S. exports of oilfield machinery exceeded $2 billion in 1979, and other industrial nations can be expected to compete in this very lucrative market.

For many years, the Southwest region has dominated the Nation's oil and gas industry. However, as a producer, the region is unquestionably mature, and experts discount the possibility of major discoveries which can use present recovery techniques. As production declines, businesses which depend on oil and gas industries, either as markets for their products or as suppliers, will be affected. The region's vulnerability can be decreased through diversification; however, the incentive to diversify is hampered by the high profits, wages, and taxes currently provided by these industries.

CHAPTER 4

REGIONAL OIL AND GAS PRODUCTION OUTLOOK

CRUDE OIL PRODUCTION

Oil production in Texas, Oklahoma, and Louisiana declined through most of the 1970s. Production will probably continue to decline during the 1980s. Texas' crude oil production has been declining steadily (about 3.4 percent a year) since 1972, when the State's output peaked at 1.3 billion barrels. In 1979, Texas' production dropped to almost 1 billion barrels. Louisiana's crude oil production peaked in 1971 at 935.1 million barrels and has since declined about 7.8 percent annually to 489.8 million barrels in 1979. Oklahoma's crude oil production peaked over 50 years ago (1927) and almost half of its current production is from stripper wells (wells that produce 10 or less barrels per day). In recent years, Oklahoma's production has declined about 4.7 percent a year, from 223.8 million barrels in 1970 to 144.9 in 1979.

NATURAL GAS PRODUCTION

Texas' natural gas production peaked at 8.6 trillion cubic feet (tcf) in 1972 and has been shrinking steadily by an average 4.2 percent a year since then, with 1979 production at 6.4 tcf. Louisiana's production peaked in 1973 at 8.2 tcf and declined at an average annual rate of 5.4 percent during 1974-76. Production has since fluctuated but is still below the 1973 peak; 1979 production was 7.3 tcf. Significantly, in 1977, Louisiana's natural gas production surpassed that of Texas for the first time. Oklahoma's production was 1.80 tcf in 1972 (the peak year) and 1.77 tcf in 1979. Production declined an average of 3.8 percent a year between 1973 and 1975. It has fluctuated in more recent years, but is still below the peak year. Comparatively, Oklahoma's overall decline during the past decade has been the lowest in the region, averaging only 0.3 percent a year since 1972; yet, in absolute terms, the State's production is several times below that of either Texas or Oklahoma.

THE OIL AND GAS PRODUCTION OUTLOOK FOR THE 1980s IS UNCERTAIN

The likely outlook for crude oil in all three States is a continuation of the current trend of decreasing production, especially in Texas. In broad terms, only under the most

optimistic of assumptions could oil production levels of the 1970s be maintained.

Compared to oil, gas production is more uncertain because gas has not been as fully exploited as oil in the past. As a national energy source, gas is relatively new (post-World War II). Although a trend reversal is more possible for gas production than for oil, it is still unlikely. Even though exploration for natural gas is up markedly in all three States, production is likely to continue declining during the 1980s. Texas may experience the most extensive drop in gas production, mainly because oil production is expected to drop. (Frequently, gas is found dissolved in oil.)

Our projections for the 1980s are presented, not as predictions, but as indications based on trend extrapolations, in which historical relationships between production and reserves, between drilling and finding rates, and between drilling and size of reserves found were applied to future circumstances. In short, these projections, which closely fit the States' recent production patterns, indicate that oil and gas production in Texas, Oklahoma, and Louisiana will probably decline in the 1980s. For the post-1980s, there is much speculation among experts as to whether the production declines will be slowed by enhanced oil recovery and alternate gas sources.

CHAPTER 5

LITTLE PLANNING BY STATES TO DIVERSIFY REVENUE SOURCES AND ECONOMIC BASES

With the possible exception of Texas, the southwestern States are not undertaking comprehensive, long-range planning to help preclude dislocations that could result from the region's relatively high dependence, both in its fiscal structure and economic base, on the oil and gas industry.

FISCAL DIVERSIFICATION PLANNING-- LESSENED INTEREST AND RELUCTANCE IN USING ALTERNATIVE REVENUE SOURCES

Interest among the three States in long-term fiscal planning, while somewhat mixed, generally has lessened in recent years with the rise in energy prices. Louisiana's fiscal planning relative to oil and gas has been largely reactive, consisting of adjusting severance tax rates and bases. In 1973, the Louisiana legislature switched the State's severance tax base on oil production from volume to gross value, which leads to increased revenues so long as price increases out-pace production decreases. Recently, legislative members have also considered switching the tax base on natural gas to value. Oklahoma's position--based on extensive, small-scale, deregulated production--is more fortuitous (for now) than planned; i.e., since almost half of Oklahoma's oil production is from stripper wells, much of the State's production is effectively valued at world market prices. Texas, on the other hand, seems concerned about the long-range view; the Governor has requested a privately funded research association to study the long-range fiscal impacts of declining oil and gas production and reserves in Texas.

Due largely to their reliance on energy-based taxes, the southwestern States rely less on traditional taxes than do other parts of the country. For example, in relation to other areas, the southwestern States have made relatively little use of the most widely used State revenue sources--sales and income taxes. Understandably, the southwestern States are reluctant to use these tax sources as long as the region's energy production generates adequate revenues. In fact, the few attempts to initiate alternative revenue sources have been limited mainly to the energy tax base--such as Louisiana's "first-use tax" on natural gas from Federal offshore waters and Texas' often-proposed, long-discussed (over 30 years) refinery tax.

Yet, the States' present fiscal flexibility may not continue over the long run because fossil fuels are nonrenewable natural resources. Even in the short run, the public revenue benefits of higher oil and gas prices may not accrue totally to the producing States' coffers. As mentioned above, the outlook is highly uncertain because energy is an overriding national issue and may distort the traditional taxation boundaries between levels of Government.

ECONOMIC BASE DIVERSIFICATION PLANNING LIMITED BY SEVERAL OBSTACLES

Texas, Oklahoma, and Louisiana do not have specific statewide policies of encouraging diversification to counterbalance their dependence on the oil and gas industry. Instead, the few existing economic development policy goals are very broad and general, often implicit or unstated, and usually involve only providing more jobs and raising income levels. These implicit policy goals are being implemented by functional line agencies, such as industrial development departments or commissions. Not surprisingly, in the absence of specific diversification goals, these agencies' efforts consist almost solely of industry-attraction programs, with little or no evaluation of the new employment sources' energy-intensiveness or linkages to the oil and gas industry.

Generally, Louisiana's executive branch agencies assumed that long-range planning relative to the oil and gas industry was either another agency's responsibility or, for a variety of reasons, was unnecessary. The most frequently cited reason was a perception that oil and gas resources would be available well into the next century. Although the legislative branch has actively sponsored energy legislation, much of it seems designed only to retain oil and gas resources and related revenues within the State.

Oklahoma is not undertaking policy formulation or functional planning to diversify the State's economy relative to the oil and gas industry, principally because such undertakings seem unnecessary now. However, attention is being given to developing a planning process which, as planning horizons are pushed out beyond 1 year, may eventually address long-range problems, such as the issue of natural resource depletion.

Similarly, Texas has no economic or diversification strategy relative to the oil and gas industry. However, the Governor has recently initiated a comprehensive planning project to identify trends and decide where the State ought to

be in the year 2000. Two issues already identified as needing attention are the long-range consequences of shifts in the composition of Texas' economy, and the impacts of declining oil and gas reserves on State revenues. The project's steering committee has recognized, however, that long-term planning efforts in Texas face several obstacles. A primary concern is that existing State government institutions may not presently be capable of responding to long-range policy planning needs and issues.

The Federal Government, as the major source of planning funds, can help assure that State planning processes not only have a degree of continuity but also focus on important multi-State or regional issues.

CHAPTER 6

LITTLE ENCOURAGEMENT BY THE FEDERAL GOVERNMENT TO FOSTER DIVERSIFICATION PLANNING

The Federal agencies that have major planning assistance programs--the Economic Development Administration (EDA), the Department of Housing and Urban Development (HUD), and the Ozarks Regional Commission (ORC)--are not addressing possible long-range fiscal and economic base problems in the Southwest that stem from the region's heavy reliance on the oil and gas industry.

EDA CAN BE MORE ISSUE ORIENTED

The economic development strategy prepared by EDA's southwestern regional office for fiscal 1979 clearly recognized the seriousness of depleting oil and gas resources in Texas, Oklahoma, and Louisiana: "Depletion of these resources will have a monumental effect on the economy of these States in the not too distant future." Surprisingly, however, the strategy contained no goals or objectives regarding the issue. Regional office representatives explained that the strategy document has not been used to address the region's oil and gas dependency, for various reasons--(1) the strategy is not really a strategy, per se, but rather a regional status report and a funds distribution mechanism; (2) the regional office does not control all Economic Development Administration programs in the region; and (3) the issue is not current but long-range, and should be assessed by headquarters' research division.

However, the Washington 302(a) Program Specialist for the Southwestern Regional Office, emphasized that the regional office does have the authority and independence to address regional concerns, such as the oil and gas issue. He explained that:

> --The regional office can develop a strategy to focus on a specific issue, such as diversification relative to the oil and gas industry, and is in the best position to assure that the overall economic development programs prepared by sub-State grantees address the issue. After all, the overall programs themselves are developed with EDA planning assistance funds, either 301(b) or 302(a).

--Even though one of these programs, 302(a), is managed centrally by headquarters, all applications from Texas, Oklahoma, and Louisiana go through the southwestern regional office for review and comment. So, even here, the regional office can influence issues.

Research division representatives informed us that EDA has neither undertaken nor planned research regarding the Southwest's fiscal and economic dependence on the oil and gas industry. They stated that, while the agency's legislative authority permits focusing on the oil and gas issue, the agency's interest generally is for currently poor or distressed areas, not for oil and gas areas. In our opinion, the Economic Development Administration's charter is such that the agency should endeavor to anticipate long-range regional problems, such as the Southwest's potential overdependence on the oil and gas industry.

HUD'S COMPREHENSIVE PLANNING ASSISTANCE (701) PROGRAM NOT DIRECTIVE

Similar to the Economic Development Administration's planning programs, the Department of Housing and Urban Development's 701 Program has not focused on the southwestern oil and gas issue. The program's acting deputy director stated that Department headquarters, in all likelihood, would not consider having the agency's southwestern area offices focus on the oil and gas issue. He stated that the agency is more concerned with real, immediate problems and expects more short-range benefits from grantees' planning efforts.

Should these comments represent HUD's unalterable position, then 701 assistance is likely to address the Southwest's oil and gas dependency issue in piecemeal fashion at best, if at all. That is, while initiatives may be proposed by State and sub-State grantees, this alone is not sufficient to assure either a regional perspective or a continuing effort.

ORC'S REGIONAL ACTION PLAN NOT FOCUSED ON THE FISCAL AND ECONOMIC BASE ISSUE

The Ozarks Regional Commission's Regional Action Plan recognizes the importance of hydrocarbon energy resources in meeting the region's energy needs, such as fueling the region's industries and electric utilities. The plan does not address the region's fiscal and economic reliance on the oil and gas industry, but Commission representatives were much more receptive to the issue than either EDA or HUD.

An ORC staff member, the program officer for energy, informed us that the Commission has sponsored several energy-related, technical assistance projects, some of which could be viewed as prelimary to focusing on the suggested fiscal and economic base dependency issue. One project, for instance, involved evaluating the region's and the States' energy policy options for achieving a balanced and orderly transition to alternative fuels.

The special assistant to the Federal co-chairman commented that long-range fiscal and economic base diversification planning relative to the oil and gas industry was probably an issue which the Commission should have thought of on its own--especially since such planning is definitely in line with the Commission's recent and ongoing energy projects, such as the energy alternatives study. Additionally, the special assistant said that, if priorities were rearranged, the Commission's present budget was adequate to sponsor the planning; however, he noted that any decision on such a project would rest with the Governors.

In summation, EDA's and HUD's preliminary reactions to the Southwest oil and gas issue varied widely from that of ORC. Generally, EDA and HUD representatives emphasized that their agencies' programs concentrated on real, immediate concerns; they saw no need to address possible long-range fiscal and economic base problems stemming from the region's heavy reliance on the oil and gas industry. However, whereas EDA headquarters probably would not object to regional office initiatives, HUD headquarters seems reluctant to delegate such discretionary authority to area offices.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

Although the Southwest region currently is fiscally and economically healthy, there are troublesome trends which should be addressed by Federal, State, and sub-State planning processes. The facts strongly suggest that long-range planning is needed. Generally, the various existing planning assistance programs are partnerships among the Federal, State, and local governments. Although the lower governmental levels often decide the course of planning and development efforts (a bottom-up approach), the Federal Government nonetheless retains essential coordinative and redistributive roles. Too, the Federal Government frequently provides much of the funding for planning processes. Through oversight of applicable Federal agencies' operations, the Congress can help assure that potentially severe economic dislocations in the Southwest's basic industry are anticipated in time to take mitigative actions and thus preclude the need for huge Federal aid expenditures in what could become a distressed area.

The Federal Government provides planning assistance through various agencies and programs, such as EDA's 302(a) program and HUD's 701 program. Generally, these programs are aimed at developing planning capacity at State and sub-State levels; the intent is that capacity building will stimulate substantive planning--comprehensive policy formulation regarding specific, important issues, both short run and long run. In this perspective, then, the substantive impact or contribution of these Federal programs is only as good as the States' planning processes. Yet, with the possible exception of Texas, the States' continued heavy reliance on decreasing quantities of oil and gas has caused relatively little concern for diversification planning.

Even though the Federal Government is the final arbiter of national interests, including multi-State or regional issues, effective program implementation depends more on a cooperative coalition with "grass roots" input than on explicit authority. Still, there is nothing incompatible between a bottom-up approach to planning and the Federal Government's being more proactive in assuring that important, regional issues are addressed. This principle is reflected in the following recommendations.

RECOMMENDATIONS TO THE SECRETARY OF COMMERCE

We recommend that the Secretary of Commerce have the Economic Development Administration help encourage the Southwest's Federal, State, and sub-State planning processes to focus on the oil and gas issue. The agency's southwestern regional office's economic development strategy should recognize the oil and gas issue; the regional office can take positive actions--particularly in reviewing applications for 301(b) and 302(a) planning assistance funds--to assure that the issue is (1) considered by State government grantees in Texas, Oklahoma, and Louisiana; and (2) included in applicable sub-State areas' overall economic development programs. Moreover, we think that the regional office's planning and operating needs--especially in preparing, monitoring, and updating an issue-oriented economic development strategy--should be supported by EDA's research division.

If long-range planning, which includes issue-oriented research and strategy development, is to be useful, it must have the Governors' interest and commitment. In this regard, we recommend that the Economic Development Administration's efforts be coordinated with those of the Ozarks Regional Commission. Ideally, the Economic Development Administration's "Southwestern Regional Strategy" and the Ozarks Regional Commission's "Regional Action Plan" should be mutually reinforcing.

RECOMMENDATIONS TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

Unlike the Economic Development Administration and the Ozarks Regional Commission, the Department of Housing and Urban Development does not formulate multi-State development strategies. We believe, however, that the Department's area offices (together with the 701 Program), with their direct influence on grantees' overall program designs, can be helpful in addressing regional concerns, such as the Southwest oil and gas issue. Accordingly, we recommend that the 701 Program's administrator direct area offices in Texas, Oklahoma, and Louisiana to consider this issue in reviewing 701 applications and overall program designs. Further, since the 701 Program's State and sub-State grantees in the Southwest are, in many instances, also recipients of EDA and ORC assistance, we recommend that HUD's area offices be cognizant and supportive of the other Federal agencies' planning efforts regarding this issue.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress consider the following oversight options to assure that the Southwest's oil and gas issue is addressed.

--The preceding sections made several recommendations concerning the regional strategies and/or planning assistance programs of the Economic Development Administration, the Department of Housing and Urban Development, and the Ozarks Regional Commission. Through the annual authorizations and appropriations processes, the Congress can monitor the Federal agencies' progress in meeting the recommendations.

--There is much in common among the planning objectives of the three agencies. This suggests the possibility of composite, coordinated planning documents. To facilitate oversight, as well as to promote greater efficiency and effectiveness of planning and development efforts, the Congress could require the applicable Federal agencies to follow a common regional strategy or action plan.

MATTERS FOR CONGRESSIONAL CONSIDERATION

The Southwest's long-term, energy-related issues are of concern nationally because the southwestern States provide the majority of the Nation's oil and gas production. This national aspect contributes to political considerations increasingly permeating all aspects of energy. For example, even the dichotomy between energy-producing and energy-consuming States, in terms of severance tax revenues, is becoming a national issue which may demand congressional attention.

In its policymaking role, the Congress should be aware that broad, national economic-energy policies may produce inequitable effects among the various regions because of regional differences in industry and natural resources concentration. Cartel-established, world oil prices and incremental decontrol of domestic oil and gas prices exacerbate regional differences in energy endowments and needs.

Even though national policies traditionally have had inequitable effects among the various regions, the less-advantaged or less-developed regions have been slow to use political power to influence national policies and priorities. This is perhaps caused by a number of factors, including the traditional reliance on the free market system, the prevailing attitudes of local-regional independence, and

the relative cultural similarity among all regions. One result is that the Federal Government, in formulating national policies, has not been fully sensitive to disparities among the various regions' economies.

Although the United States has no national policies specifically intended to affect the regional distribution of economic activities, the current, energy-transitional era has witnessed the birth of a slew of regional, political coalitions. Moreover, the concept of balanced, regional economic development has become a topic of congressional interest. It may well be that energy, as the "new economic development wildcard," 1/ will necessitate that the Congress increase its efforts to assure that national economic policies consider and reflect regional concerns and differences.

In this regard, the Housing and Community Development Act of 1980 provides a basis for creating a functioning, national partnership to establish and achieve growth policy and economic development goals. One purpose of the proposed Act is to improve Federal agencies' abilities to consider specific regional differences, perspectives, and needs.

To accomplish this purpose, the Act incorporates and extends President Carter's concept of a "regional growth policy process" designed, in the words of a January 1979 Presidential memorandum, to enhance "the ability of States and localities to shape Federal policies in behalf of regional concerns * * *." 2/ That is, under the envisioned policy process, State and regional plans would guide not only the Title V regional commissions but also all Federal agency activities relating to regional growth and development.

Prior to the Act's passage, the regional growth policy process was being considered by applicable congressional committees and Federal agencies. For example, at the Department of Commerce's request, the Old West Regional Action Planning

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1/Shirley P. Burggraf, "Energy: The New Economic Development Wildcard," January 1978, a paper prepared for the White House Conference on National Balanced Growth and Economic Development, under a grant from EDA.

2/As reported by Leonard U. Wilson, Council of State Governments, "Integrating Development Planning and Programming'" May 1980, a paper prepared for the Office of Regional Development, U.S. Department of Commerce.

Commission has undertaken a prototype program to implement such a policy process. A year into its program, the Commission reports some positive results and views the program's continuation as highest priority, especially given that one of the process' primary strengths is its ability to achieve regional objectives within existing budgetary levels.

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